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ABSTRACT

This report presents findings and recommendations of the California Postsecondary Education Commission concerning compensation for executives of the University of California, California State University, and California community colleges. The report focuses on changes in the policy or compensation levels from 1997-98 to 1998-99 and addresses each of the institutions separately. For community colleges the report shows trend and range data for chancellors of multicollege districts, college presidents in multicollege districts, and superintendents/presidents in single college districts. It notes increasing disparities among community colleges because each of the 71 community colleges is responsible for setting the compensation of its own executives. For the California State University the report also provides trend data and comparisons with similar institutions nationally. It notes progress towards implementing a coherent executive compensation policy and a continuing lag in salaries at the presidential level when compared to similar institutions nationwide. For the University of California the report notes the policy of setting the average compensation at the mean of national comparators, while being flexible in the actual levels paid to each chancellor. The report notes continuing progress in simplifying executive compensation policies and in offering equity in benefits. (DB)

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Executive Compensation in California Public Higher Education, 1998-99

Pursuant to legislative directive, this 1998-99 Executive Compensation Report is the seventh in a series that reviews the policies and resultant compensation levels for executives in California public higher education. The specific language guiding Commission activities on this issue is:

> It is the intent of the Legislature that the University of California and the California State University report to the California Postsecondary Education Commission on January 1 of each year, beginning on January 1, 1993, on the level of the total compensation package for executives of the University of California (including the president, senior and vice presidents, and campus chancellors) and the California State University (including the chancellor, senior and vice chancellors, and campus presidents), respectively .... It is the intent of the Legislature that the California Postsecondary Education Commission review the information provided and transmit its comments thereon to the Joint Budget Committee, the fiscal committees of each house, the appropriate policy committees of each house, and the Governor on or before March 1 of each year, beginning on March 1, 1993.

In addition, this report includes information on the California Community Colleges.

In responding to the legislative directive, this report will focus on describing changes in the policy or compensation levels over the last 12 months. Additional details and information can be obtained by requesting from the Commission the technical appendix to this report.

The Commission's perspective and responsibility regarding executive compensation

The Commission has historically viewed executive compensation through the following lens:

- Because executives play various roles in public colleges and universities -- educational leader, corporate administrator, and public servant -- the development of policy and the resultant setting of compensation levels is a complex undertaking that requires an understanding of the myriad responsibilities assumed by these executives at the campus and systemwide levels;
- College and university executives can contribute immeasurably to the quality of educational environments in which they function;
- Because the amount of funds allocated for executive compensation is small with respect to an institution's resource base, its relevance in the budgetary context of institutions is relatively insignificant; and,
- Despite the relative small expenditure of funds on executive compensation, this issue has the potential to generate enormous public relations difficulties for institutions.

Because the governing boards of the two public university systems and the local boards of trustees of community college districts set the compensation levels for their executives, the Commission's specific responsibilities with respect to the issue of executive compensation are to provide information on: (1) the policies that guide the setting of compensation levels; (2) the levels set each year; and, (3) the relationship between the compensation paid to California's higher education executives and their national comparators. Additionally, Commission staff participate in discussions about the appropriateness of the set of comparators for the California State University and University of California. In discharging these responsibilities, the Commission has continued to focus its attention on the contribution that strong executive leadership makes to educational quality in California's colleges and universities.

CALIFORNIA COMMUNITY COLLEGES

Compensation for executives in community college districts

Each of the 71 community college districts in California is responsible for setting the compensation of its executives. As such, the policies that guide the setting of compensation vary widely across the state as do the resultant compensation levels. Display 1 presents summary information for three types of executives in community college districts: (1) chancellors of multi-college districts; (2) campus presidents within multi-college districts; and, (3) superintendents/presidents of single-college districts. In addition, this display provides information on changes in aggregate compensation levels over the last two years.

DISPLAY 1 Compensation of Executives in Community College Districts, 1997-98 and 1998-99

Type of Executive	1997-98	1998-99	Change
Chancellors of Multi-College Districts			
Number	20	N/A	
Average Annual Salary	$134,502	$144,578	+ 7.5%
Lowest Salary	$116,000	$128,750	+ 11.0%
Highest Salary	$150,000	$179,500	+ 19.7%
Range	$ 34,000	$ 50,750	+ 49.2%
College Presidents in Multi-College Districts			
Number	55	N/A	
Average Annual Salary	$106,670	$111,286	+ 4.3%
Lowest Salary	$ 94,951	$ 93,516	- 1.5%
Highest Salary	$128,979	$136,024	+ 5.5%
Range	$ 34,028	$ 42,508	+ 2.5%
Superintendents/Presidents in Single-College Districts			
Number	51	N/A	
Average Annual Salary	$114,095	$119,891	+ 5.0%
Lowest Salary	$ 92,500	$ 96,000	+ 3.8%
Highest Salary	$172,000	$178,002	+ 3.5%
Range	$ 79,500	$ 82,000	+ 3.1%

The trends presented on this display indicate that the pattern of change since 1997-98 varies by executive type:

- The salary for the lowest paid chancellorial position has increased by eleven percent and the highest paid chancellorial salary increased by 19.7 percent. As a consequence, the difference between the highest paid chancellor and the lowest paid chancellor increased by 49.2 percent since last year.
- For presidents in multi-college districts, the salary for the lowest paid president decreased by 1.5 percent and that of the highest paid president increased by 5.5 percent; as such, the salary range expanded only slightly -- by 2.5 percent.
- For superintendent/presidents in single college districts, the lowest salary increased by 3.8 percent while the highest salary increased only slightly less at 3.5 percent expanding the difference between the highest paid and lowest paid superintendent/president by 3.1 percent.
- Average compensation of community college executives has increased by between 4.3 percent and 7.5 percent over the last year.

Compensation for systemwide executives

The Chancellor's Office of the California Community Colleges is a State agency that operates under the rules, regulations, and procedures set by the Department of Personnel Administration, the State Personnel Board, and the Department of Finance. Unlike its public higher education counterparts, the Board of Governors is restricted in its actions by the State bureaucracy in terms of its ability to establish compensation levels for its executive staff.

In the Chancellor's Office, there are eleven executive positions. Eight of these positions are filled by individuals holding State government classifications and three are filled by individuals from a campus through an Interjurisdictional Exchange (IJE). As of April 1, 1999, the Chancellor's salary is $149,349, an increase of $4,344 since the Commission's last report, which represents a 3 percent increase during this time period. Additionally, the Deputy Chancellor position, which had been vacant since 1996, has been filled. That individual earns an annual salary of $111,180. The salaries for the six vice chancellorial positions that are filled on a permanent basis range from $82,788 to $101,180 with an average salary of $90,702 -- a 5 percent increase over last year.

Commission Comments

As the Commission has discussed in the past, the basic principle underlying executive compensation among community college districts continues to be autonomy and flexibility. Each district makes a determination presumably based upon its financial condition, performance of the incumbent, local living costs, and board prerogatives. As Display 1 evidences, this principle has resulted in disparities within the community college system. The disparity among chancellors in multi-college districts has increased over the last year as have those of the presidents in both multi-college districts and single college districts. Although there may be solid reasons for these differences, the comm[illegible] colleges continue to appear to be less than the un[illegible]em envisioned by Assembly Bill 1725.

As previously noted, the Chancellor's Office [illegible] of state government and salaries are set by admi[illegible]ve State agencies. This past year, the Chancellor was granted a modest 3 percent salary adjustment bringing his annual compensation level to $149,349. Last year, the Commission reported that the compensation level of the Chancellor had been increased by 26 percent in the preceding two years - a development that the Commission viewed as positive because this position is directly related to the educational quality and complexity of the community colleges and integral to the capacity of higher education to contribute to the State's future. The Commission believes that these recent increases in the compensation level for its Chancellor places the system in a much better position to compete for executives with the expertise and experience commensurate with the needs of the position. To ensure that this system maintains its capacity to compete in the marketplace for the leadership that the system requires, the Commission recommends that the Board of Governors annually review the compensation level for this position and negotiate increases, when appropriate.

The Commission commented in its 1993-94 report in this series that "the combination of exempt, Career Executive Appointments (CEA), and Interjurisdictional Exchanges creates a complex and perhaps overly complicated configuration of personnel and salary levels." The Chancellor's Office continues to use a variety of personnel classifications among its executive staff with some state employees and others serving in their capacity through an Interjurisdictional Exchange. While this makes for a certain lack of clarity with respect to the various classifications and responsibilities of the executive staff, it does provide the Chancellor's Office with the ability to make use of the vast expertise of individuals who have served the system well at the campus level.

Over the past two years, the Commission has been engaged in an effort to identify ways by which to improve statewide coordination through enhancing the policy and governance capacity of the community colleges. A report on this issue was discussed by the Commission at its June 1998 meeting and accepted by the Commission at its December meeting. The final report contained recommendations that would affect the authority and responsibilities of the Chancellor's Office, local boards, district offices, and campus presidents/superintendents. The Commission remains committed to collaborating with the Board of Governors to achieve the mutually agreed upon goal of enhancing the effectiveness of the community colleges as a state system.

CALIFORNIA STATE UNIVERSITY

Current policy on executive compensation

Since publication of the Commission's last report on executive compensation, the State University's policy has remained unchanged. In short, it calls for the State University to set its average compensation for campus presidents at the mean of presidential salaries at comparable institutions in the nation. Further, the policy recommends that the specific compensation for each president be based on the "mission, scope, size, complexity, and programs of each campus" and an appraisal of individual performance and experience as well as system and national policy leadership. Also taken into consideration are regional cost of living differentials and the need to maintain a competitive market position.

Compensation for campus presidents

In the mid 1990's, the Commission's executive compensation reports revealed a growing gap in the salaries of the presidents of the California State University campuses and those of the presidents of their national comparison institutions. Because the Board of Trustees viewed the gap in compensation levels between its presidents and the national comparators as increasingly problematic to the system's ability to recruit qualified executives, it established a committee in January, 1997 to examine this situation in a comprehensive manner and to make recommendations about actions that it could take in the future. This committee reported early in the 1997-98 year and recommended that the existing lag of 30 percent be eliminated over the next three years. To begin that effort, the Board of Trustees approved salary adjustments for the presidents that averaged 10 percent for the 1997-98 year. This report reflects the second year of the three year plan by the Board of Trustees. During that time, the Board of Trustees approved salary adjustments for the campus presidents averaging 11.7 percent.

Display 2 presents the compensation levels for the presidents of the State University's 22 campuses.

DISPLAY 2 Compensation for Presidents of 22 California State University Campuses, 1997-98 and 1998-99

	1997-98	1998-99	Change
Average Annual Salary*	$156,089	$174,412	+ 11.7%
Lowest Salary	$132,324	$142,920	+ 8.0%
Highest Salary	$180,708	$202,404	+ 12.0%
Range	$ 48,384	$59,484	+ 22.0%

* Data excludes Channel Islands.

The total increase in executive compensation for all 22 campus presidents was $403,092 for the 1998-99 fiscal year. All campus presidents received a salary adjustment in the current year. The salary adjustments ranged from 5 percent to 23.8 percent, with the average increase as reported above at 11.7 percent.

During the reporting period, two California State University campuses underwent changes in leadership. A new president was appointed for California State University, San Marcos, effective July 15, 1998 and an acting president was appointed for California State University, Dominguez Hills, effective July 1, 1998. Additionally, a new interim president has been appointed for California State University Northridge, effective June 1999, as has a new president for California State University, Dominguez Hills -- a change which will be effective July 1, 1999. (The salaries for the latter two actions will be reflected in next year's report.)

In addition to their base salaries, all presidents receive assistance with housing. Seven presidents live in houses provided and maintained by the State University; the other presidents receive an annual housing allowance ranging from $20,000 to $32,000, depending upon cost-of-living differentials. This is an increase from the 1997-98 housing allowance which ranged between $16,000 and $30,000. Further, campus presidents have access to either a State-owned automobile for business purposes or are provided an auto allowance and are reimbursed for entertainment expenses incurred as part of University-related activities in accordance with the system's rules and regulations.

Salary comparisons between the State University and similar institutions nationally

As indicated above, the State University's policy stipulates that its average presidential salary should be set at approximately the mean of comparable institutions nationally. For several years, the State University and the Commission have agreed upon a set of 20 institutions that serves as the State University's comparators for the purpose of gauging the extent to which its salaries are similar to those of institutions with which it competes for executives. Five comparators are independent institutions. The remaining 15 are public universities.

A private firm gathered information on the compensation of the chief executive officer at the 20 comparable institutions for the 1998-99 Academic Year.

The chief executive officer of the comparators will earn an average of $200,684 in this academic year; the corresponding figure for the 22 State University presidents is $174,412. Only one of the State University presidential salaries equals or exceeds that of the mean of the comparators.

These figures demonstrate that, since last year's study, the State University has made significant progress in reducing the lag from 23.2 percent down to the current 15.1 percent.

Compensation for systemwide executives

There are six positions that constitute the executive staff at the Chancellor's Office of the State University. Five of those positions are currently occupied and the vacant position -- Vice Chancellor for Human Resources -- has now been filled, effective June 1, 1999.

The compensation level for the new Chancellor is $266,700 which represents a 5 percent increase over the 1997-98 level. The Executive Vice Chancellor's salary increased by 6 percent to its current level of $201,408. The salaries for the remaining executives now range from $160,656 to $198,084.

In addition to his base salary, the Chancellor lives in University-provided housing. Automobile allowances or use of State-owned vehicles for University business are part of the compensation package for the systemwide executives. The Chancellor and Executive Vice Chancellor receive a supplemental retirement plan through the CSU Foundation to augment their Public Employees' Retirement System (PERS) retirement benefit which is limited by the federal Internal Revenue Service "cap" on eligible PERS retirement compensation. Finally, executives are reimbursed for entertainment expenses incurred in conjunction with University-related activities in accordance with the system's rules and regulations.

Commission comments

As in the past, the Commission's comments about executive compensation at the State University center on changes in the development and implementation of its policies and the lag in compensation between this system and its national comparators.

Policy development and implementation: The State University continues to make progress in implementing an understandable and coherent executive compensation policy. Adjustments in compensation to campus presidents for 1998-99 ranged from five to 23.8 percent — a span that reflects movement in the direction described in the policy in which determinations are made on an individual basis that take into consideration myriad institutional and performance factors.

Lag in salaries at the presidential level: The lag between the average salary of State University presidents and its national comparators over the past six years is presented in Display 3. In 1994-95, the salary lag doubled from 11.1 percent to 22.5 percent and continued to rise to 31.9 percent in 1995-96. Last year, the Commission reported that the average salaries for the CSU presidents rose by 19.1 percent between 1993-94 and 1997-98, while those of its comparison institutions rose by over 32 percent. As previously discussed, deliberate action was taken by the Board of Trustees in 1997 to make progress towards eliminating the lag with its national comparators. As a result of the actions taken by the Board of Trustees in 1997 and again in 1998, the rate of change in salaries of CSU presidents has begun to come closer to that of its comparison institutions. During the most recent six year period beginning in 1993-94, the average salaries at the national comparison institutions has risen by 38.5 percent; the corresponding change at the State University for this time period has been approximately 33.7 percent. The substantial salary adjustments made over the last two years have clearly contributed to reducing the lag by half -- from 30 percent in 1996-97 to the current gap of 15.1 percent.

DISPLAY 3 Average Compensation for California State University Presidents and Their National Comparators, 1993-94 to 1998-99

	National Comparators	California State University	Salary Lag
1993-94	$ 144,908	$ 130,462	- 11.1%
1994-95	$ 162,728	$ 132,796	- 22.5%
1995-96	$ 179,180	$ 135,870	- 31.9%
1996-97	$ 184,415	$ 141,865	- 30.0%
1997-98	$ 191,426	$ 155,360	- 23.2%
1998-99	$ 200,684	$ 174,412	- 15.1%
6-Year Average	38.5%	33.7%	

Because it regards executive compensation as a factor affecting educational quality, the Commission has shared the concerns of the Trustees. During the mid 1990's, the lag was clearly moving in a direction that was counter to the State's interest; if permitted to continue, the gap could hamper the State University's ability to continue to enhance its leadership cadre -- a high priority for the system, the Commission, and the State. Therefore, the Commission has been supportive of the direction of the recommendations from the Trustees' Committee on executive compensation and continues to support the existing efforts of the State University to commit a reasonable amount of additional resources such that it can recruit and retain executives with the capacity to lead their campuses and this state in the future.

UNIVERSITY OF CALIFORNIA

Current policy on executive compensation

Since the significant changes in the University of California's policy on executive compensation in the early 1990s, the policy has remained constant. Specifically, this policy calls for the Board of Regents to set the average compensation level for chancellors at the mean of its national comparators, with the actual level paid to each chancellor a function of "the scope, size, complexity, and quality of each campus" as well as the performance and experience of the incumbent. This policy is expected to both "maintain a competitive market position and recognize individual performance". A hallmark of the policy is the establishment of an internal alignment among and between the set of chancellor positions and executives in the systemwide office.

Compensation for University chancellors

Display 4 presents information on the aggregate changes in compensation levels over the last two years for the nine chancellorial positions in the University. Effective October 1, 1998, the University of California Board of Regents approved an average 3.5 percent merit salary adjustment for its Chancellors. In addition, the Regents approved market

DISPLAY 4 Compensation for Chancellors at the University of California, 1997-98 and 1998-99

	October, 1997	November, 1998	Change
Lowest Salary	$ 190,000	$229,000	+20.5%
Highest Salary*	$ 230,000	$271,400	+18.0%
Range	$ 40,000	$42,400	+ 6.0%
Average Annual Salary (includes San Francisco)	$ 213,044	$253,133	+18.8%
Mean Base Salary (excludes San Francisco)	$ 207,238	$244,363	+17.9%

*Of the eight general campuses only. Excludes the Chancellor of the University of California, San Francisco because of the uniqueness of the campus.

based equity adjustment ranging between 12 percent and 15 percent. As a result, the salary adjustments for the Chancellors of the eight general UC campuses for 1998-99 average 17.9 percent and total $297,000.

Since the Commission's last report, two UC campuses have undergone changes in leadership. New Chancellors were appointed for the UC Irvine campus and for UC San Francisco, effective July 1, 1998.

In addition to their base salary, University chancellors live in University-provided housing. University-leased vehicles are provided to chancellors for their use on campus business and they receive reimbursement for expenses incurred in conjunction with University business through procedures consistent with University Administrative Fund guidelines.

Salary comparisons between the University and similar institutions nationally

As with the State University, the executive compensation policy calls for the University of California to set its average chancellorial salary at the mean of its national comparators. The University has two sets of national comparators: (1) the All-University Set of 26 positions in 21 institutions and (2) its comparison Eight Faculty Salary Set.

The All-University Set: Of the 26 positions for which data was obtained, 14 are in public universities and 12 are in independent universities. A private consulting firm analyzed information from all comparison institutions. The salary adjustments which became effective for the nine University of California chancellors as of October 1, 1998 result in a current average salary of $253,133 as contrasted with the average salaries at their comparison institutions as of July 1, 1998, of $284,116. When excluding the salary of the chancellor at San Francisco because of the uniqueness of this health science campus, the average salary of the UC chancellors falls to $244,363. As a result, the lag between the compensation paid to the nine University of California chancellors and their comparators is 12.2 percent; excluding the Chancellor of UC San Francisco the lag is 16.3 percent.

Faculty Salary Set: The comparison faculty salary set of eight institutions is evenly divided between public and independent institutions. The average salary of the Presidents/Chancellors at these eight institutions is $296,115. As a result, when the San Francisco campus is included, the lag between the faculty salary set of comparators and the University of California is 17 percent. Excluding the San Francisco campus, the lag increases to 21.2 percent.

Caveat about these comparisons: The comparisons between both the All-University set and the Faculty Salary Set of institutions presented above possibly underestimates the lag that currently exists with respect to salaries for the chancellors of the University of California. The figures used to compute the gap are taken from two different points in time: the University of California salaries reflect upward adjustments made as of October 1, 1998; figures for the comparators were effective as of July 1, 1998. As such, the differences in salary setting schedules between the University and some of its comparators may, to some extent, minimize the magnitude of the gap displayed above.

Additionally, the University has expressed concern about the disparity in the salaries of its Vice Chancellor positions and that of its comparison institutions. As a result, it is likely that the UC Board of Regents may consider adjustments in the near future to the salaries for these individuals such that they are better aligned both internally and with those of the national market.

Compensation for systemwide executives

The salary of the President of the University of California is now $310,900, effective October 1, 1998. This represents a combined equity adjustment and merit increase of 18 percent since last year. The annual base salary for the Provost and Senior Vice President of Academic Affairs is $221,000 -- a 4.1 percent increase over last year. The Senior Vice President of Business and Finance was granted a 4.2 percent increase over last year effective October 1, 1998 and now earns $220,000 per year. Five of the six Vice Presidents earn an annual base salary ranging between $175,000 and 206,000 which represents an average annual increase of 5.9 percent. Because of the uniqueness of the position, the Vice President for Clinical Services Development earns considerably more at an annual base salary of $347,000.

In addition to his base salary, the President lives in University-provided housing. All executives have University-leased automobiles or are reimbursed for expenses incurred in conjunction with the conduct of University business. Further, they are reimbursed for appropriate University expenses in conjunction with the discharge of their University responsibilities and in accordance with Administrative Fund guidelines.

This past February, the UC Board of Regents approved plans to restore the UC Retirement Plan benefits earned but denied to University faculty and staff because of Internal Revenue Code limitations. The plans are subject to Internal Revenue approval and would apply to UC faculty, staff, and retirees from the date of implementation. The new plans are anticipated to be effective January 1, 2000.

Commission comments

In its last two reports, the Commission noted that the University was continuing its efforts to enhance the simplic-

ity of its executive compensation policies, to facilitate a better understanding of them by others, and to establish greater equity in benefits between executives and other University staff. Each is discussed below.

Simplicity and comprehensiveness of policies: The Commission has commented on several occasions about the progress that the University has demonstrated with respect to simplifying their executive compensation policies. The elimination of various deferred compensation plans and the establishment of internal alignment among the executive level positions on the campuses and in the systemwide office have rendered the University's executive compensation policies more understandable to policy makers and the general public.

Equity in benefits: The University has implemented a personnel system that is governed by one set of policies rather than its past system that was guided by different policies for different major staff categories. In so doing, the University has, to a large extent, equalized benefits among executives, faculty, and staff in different categories and classifications, although some differences still exist.

Display 5 presents the trend in compensation paid to the University's campus chancellors and their national comparators over the last six years.

During the six year period between 1993-94 and 1998-99, salaries at the comparison institutions have increased by 31.7 percent; at the University, the corresponding increase has been 34.3 percent. The salary lag in 1993-94 was 18.6 percent. In 1997-98, the gap had reached a six year high of 24.4 percent -- a trend the Commission concluded in last year's report was alarming and potentially detrimental to the University's ability to compete nationally for its executive leadership. However, the actions taken by the UC Board of Regents to implement both merit salary increases as well as market based equity adjustments, effective October 1, 1998, have reversed this trend significantly. As a result, the current gap is down to 16.3 percent. The actions undertaken by the UC Board of Regents for the 1998-99 year significantly improves the University's position to recruit and compete for executive leadership. Nevertheless, the Commission views the current difference between the average salaries of the UC Chancellors and those of their comparison institutions as still significant. Given that the policy is that the executive salary levels should be set at the mean of their national comparison institutions, the Commission urges the Board of Regents to consider the existing salary lag -- and the extent to which it hampers the University's ability to compete and recruit among the relatively small pool of qualified individuals to lead their campuses -- in setting compensation levels for 1999-2000.

DISPLAY 5 Average Compensation for University of California Chancellors at the Eight General Campuses and Their National Comparators, 1993-94 to 1998-99

	All University Set[1]	University of California[2]	Salary Lag
1993-94	$215,765	$181,950	- 18.6%
1994-95	$202,580	$181,413	- 11.7%
1995-96	$214,546	$189,300	- 13.3%
1996-97	$214,209	$199,413	- 7.4%
1997-98	$257,791	$207,238	- 24.4%
1998-99	$284,116	$244,363	- 16.3%
6-Year Average	31.7%	34.3%	

1. Figures as of July 1 each year.
2. Figures for 1993-96 are reflective of salary levels taken at different points during the year. 1997-99 figures are as of November 1.